

## PERFORMANCE OF MUDRA BANK: A STUDY ON FINANCIAL ASSISTANCE TO MSME SECTOR

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### ABSTRACT

The Micro Small Medium Enterprises (MSME) segment plays a significant role in the emergence of the Indian economy. The development of this segment is extremely critical to meet the national imperatives of financial inclusion and generation of significant levels of employment across urban and rural areas across the country. **Indian MSME sectors a reality by launching a dedicated bank for MSME sector is known as MUDRA Bank will spur the growth of Indian MSME Sector and help them increase their contribution to Indian GDP from its current level of 38%. This bank will greatly increase the confidence of young, educated or skilled workers who would now be able to aspire to become first generation entrepreneurs; existing small businesses, too, will be able to expand their activities.** The paper highlights the importance and the role of MUDRA bank towards the MSME sector. The main objectives of MUDRA Bank are, to encourage entrepreneurs and small business units to expand their capabilities and operations, to reduce over indebtedness and to provide formal system of credit.

**KEYWORDS:** MFI's, MSME's, MUDRA, PMJDY & TReDS

### INTRODUCTION

Indian MSMEs contribution is highly remarkable in the overall industrial economy of the country. In recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector. With its agility and dynamism, the sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and recession. In Indian market, MSMEs rapid growth could be seen as Indian entrepreneurs are making remarkable progress in various Industries like Manufacturing, Precision Engineering Design, Food Processing, Pharmaceutical, Textile & Garments, Retail, IT and ITES, Agro and Service sector. The sector not only serves for urban market but also helps in industrialization of rural and backward areas, reducing regional Imbalances and assuring more equitable distribution of national income and wealth. MSMEs complement large industries as ancillary units and contribute enormously to the socioeconomic development of the country. The significance of MSMEs is attributable to their

caliber for employment generation, low capital and technology requirement, promotion of industrial development in rural areas, use of traditional or inherited skill, use of local resources, mobilization of resources and exportability of products. The sector generates around 100 million jobs through over 46 million units situated throughout the geographical expanse of the country. With 38% contribution to the nation's GDP and 40% and 45% share of the overall exports and manufacturing output, respectively, it is easy to comprehend the salience of the role they play in social and economic restructuring of India.

Micro, Small and Medium Enterprises (MSMEs) are the backbone of the Indian economy and the engine of growth and employment. While it put the infrastructure sector under the spotlight by promising to pump in additional funds, it also gave the IT and technology sectors a major push with Rs 1,000-crore fund for self-employment and talent utilization. It has been encouraging for MSMEs in general and entrepreneurship in particular. In India, MSME sector is capable of growing at a healthy double digit rate, providing the necessary impetus for our national GDP to achieve high single digit growth in the next 2 years. The initiative will also lay down the norms for responsible financing practices for micro-finance institutions so that the small businesses do not face hardship over indebtedness, while getting a fair environment for repayment. India's small entrepreneurs were used to exploitation at the hands of money lenders so far, but MUDRA would instill new confidence in them. Small businesses in India are major source of employment, providing jobs to nearly 120 million people. If given proper access to funding and a chance to expand, they can create more job opportunities that will translate into more people having a regular income and contributing to India's domestic consumption and growth. Not to mention, increased revenues for the government in the form of taxes from businesses as well as employees.

### **MSME SECTOR OVERVIEW**

India is one amongst very few countries which has a legal framework for the MSME Sector in the form of MSME Act 2006 which has established provisions under which issues like public procurement and delayed payments. In order to enhance the capabilities of MSMEs, Ministry of MSME has been implementing a number of programs and schemes in the areas of finance, infrastructure, technology, marketing and skill development to address the problems confronting the sector. The micro, small and medium enterprise (MSME) sector in India is diverse in terms of its size; levels of technology employed and range of products and services produced, starting from grass root village Industries, the products from the sector spans to auto components, micro-processors, electronic components and electro-medical devices. MSMEs have shown constant growth rate of over 10 percent in recent years much ahead of the large-scale corporate sector. This sector contributes 8 percent of the country's GDP, 45 percent of the manufactured output and 40 percent of its exports. The MSMEs provide employment to over 80 million persons through over 36 million enterprises producing over 6000 products. Micro, Small and Medium Enterprises are the backbone of an economy. They are the most prolific job creators and pioneers in developing new ideas. MSME wants to help these businesses in every possible way to facilitate the industry. Fast changing global economic scenario has thrown up various opportunities and challenges to the MSMEs in India. While on the one hand, many opportunities have opened up for this sector to enhance productivity and look for new markets at national and international level, it has also, on the other hand, put an obligation to upgrade their competencies in various fields like marketing, finance, business development, operations, technology etc.

## AN OVERVIEW OF MUDRA

Mudra Bank is for 'funding' the 'unfunded'. This will provide credit of up to Rs 10 lakh to small entrepreneurs and act as a regulator for 'Micro-Finance Institutions' (MFIs). MUDRA Bank will also refinance Micro-Finance Institutions through Pradhan Mantri Mudra Yojana. *Mudra, in Hindi means currency*; the main objectives of Mudra Bank are, to encourage entrepreneurs and small business units to expand their capabilities and operations, to reduce over indebtedness and to provide formal system of credit. Agriculture & Self-employment will be the focus areas of Mudra Bank. Micro Unit Development and Refinance Agency Ltd, (MUDRA) bank fund the small entrepreneurs was launched under the ambitious Pradhan Mantri Jan Dhan Yojana (PMJDY). The bank will provide credit up to 10 lakhs to small entrepreneurs and act as a regulator for Micro Finance Institutions (MFI). It was set up through a statutory enactment which would be responsible for developing & refining all MFIs which are in the business of lending to micro / small business activities engaged in manufacturing, trading & service activities. The concept of MUDRA bank goes beyond credit approach only & offers a credit plus solution for these enterprises spread across the country.

Setting up of MUDRA Bank as it is a great step forward in providing the much-needed financial access and support to the small and medium enterprises. This will go a long way in stimulating the growth of MSMEs which is crucial for large scale job creation and accelerating GDP growth". MUDRA Bank envisaged as the nodal financing agency as well as regulator of Micro Finance Institutions, so that financial stress of MSMEs will now be alleviated". The idea of MUDRA Bank was first envisaged in Budget 2015-16. The Micro, Small and Medium Enterprises (MSME) sector employs a large number of people. Nearly 120 million people are employed with 57.5 million entrepreneurs and entities in the MSME sector.

### Responsibilities of Mudra Bank

- Laying down policy guidelines for micro/small enterprise finance business.
- Registration and Regulation of MFI (Micro-Finance Institutions) entities.
- Accreditation/rating of MFI entities.
- To assist the lower income groups to develop and grow their small businesses.
- To help in increasing the access of finance to the un-banked and to also bring down the cost of finance.
- To provide access to Institutional Finance for Small Business Units (SBU).
- Laying down responsible financing practices to prevent over indebtedness, ensuring client protection principles and methods of recovery.
- Development of standardized covenants governing last mile lending to micro/small enterprises.
- Formulating and running a credit guarantee scheme for providing guarantees to the loans which are being extended to micro-enterprises.
- MUDRA bank will also be responsible for regulating and refinancing all micro-finance institutions (MFIs) which are in the business of lending to micro or small business entities engaged in manufacturing, trading and services activities.
- To give priority to SC/ST enterprises in lending.

## MUDRA PRODUCTS & OFFERINGS

Businesses or Entrepreneurs would include proprietorship or partnership firms running as small manufacturing units, shopkeepers, fruits or vegetable sellers, hair cutting saloon, beauty parlours, transporters, truck operators, hawkers, co-operatives or body of individuals, food service units, repair shops, machine operators, small industries, artisans, food processors, self help groups, professionals and service providers etc. in rural and urban areas with financing requirements up to Rs.10 lakh. The primary product of MUDRA will refinance for lending to micro businesses or units under the aegis of the Pradhan Mantri MUDRA Yojana. It has been proposed to fund the units based on the stage of growth and funding needs of an entrepreneur or a micro unit. The initial products and schemes have already been created and the interventions have been named 'Shishu', 'Kishor' and 'Tarun' to signify the stage of growth or development and funding needs of the beneficiary micro unit or entrepreneur as also provides a growth for the entrepreneur to aspire for:

- **Shishu:** covering loans up to Rs. 50,000 this is the first stage when the business is just starting up.
- **Kishor:** covering loans above Rs. 50,000/- and up to Rs. 5 lakh
- **Tarun:** covering loans above Rs. 5 lakh and up to Rs. 10 lakh

Apart from these products, the other products are initially being launched as sector/activity specific schemes are like business activities in Land Transport, Community, Social & Personal Services, Food Product and Textile Product sectors. Schemes would similarly be added for other sectors / activities which are as follows:

- Micro Credit Scheme (MCS)
- Refinance Scheme for Regional Rural Banks (RRBs) / Scheduled Co-operative Banks
- Mahila Uddyami Scheme
- Business Loan for Traders & Shopkeepers
- Missing Middle Credit Scheme
- Equipment Finance for Micro Units

The other area of responsibility of the MUDRA Bank is more challenging and extensive as it aims to register and regulate MFIs:

- Firstly, the government will have to initiate the tedious task of registering over a thousand MFIs, which are spread across the country. The administrative capabilities of the government will surely be tested during this endeavor.
- Secondly, the regulation of MFIs has been a subject of debate over the years. Currently, MFIs registered as non-banking finance companies (NBFCs) hold self-regulation status.

On the one hand, due to minimal regulation there have been accounts of coercion of borrowers for repayment of loans, short repayment cycles and high interest rates while on the other, the over-regulation of MFIs resulted in the Andhra Pradesh crisis of 2010. With strict curtailment on door to door loan recovery by MFIs, recovery rates in the state plummeted causing the closure and downsizing of several MFIs. The immediate effect was the increase in the cost of borrowings by 60 percent leading to a reliance on unregulated financial agencies again. It is thereby essential for the MUDRA to draw the line between no regulation and over-regulation so as to provide entrepreneurs with a suitable credit source.

### **Important points about the MUDRA Bank Loan:**

- Growth in small businesses is key thing for the Indian economy because the sector is estimated to account for 20 % of economic output and 40% of India's exports.
- PM said that Big industrial houses provide jobs to only 1.25 crore people, while small entrepreneurs employ 12 crore people. Despite employing such a large number of people, small businesses have difficulty in getting credit from established banks. This has stifled growth and limited employment.
- The Mudra Bank has a corpus of Rs 20,000 crore, and credit guarantee corpus of Rs 3,000 crore.
- It will act as a regulator for micro-finance institutions and will be responsible for refinancing (provide low-cost loans) MFIs in the business of lending to small entities. It will partner with state and regional level coordinators to provide finance to last mile financiers of small and micro business enterprises.
- Currently in the country just 4 % of 5.8 crore small business units have access to bank loans. Such small units currently rely on informal lenders for credit.
- It will provide credit of up to Rs 10 lakh to small entrepreneurs, benefiting small manufacturing units, shopkeepers, fruits and vegetable sellers, hair salon, beauty parlors, truck operators, hawkers, artisans in rural and urban areas.
- The Mudra Bank will also formulate lending norms for micro-finance institutions so that the small businesses do not face hardship over indebtedness, while getting a fair environment for repayment.
- Loans from Mudra Bank will help bridge the shortfall in loans for small businesses, currently estimated at more than \$80 billion (nearly Rs 5 lakh)

MUDRA would also adopt a credit plus approach and take up interventions for development support across the entire spectrum of beneficiary segments. The highlights of such proposed interventions / initiatives are as follows:

- Supporting financial literacy
- Promotion and Support of Grass Root Institutions
- Creation of Framework for “Small Business Finance Entities”
- Synergies with National Rural Livelihoods Mission
- Synergies with National Skill Development Corporation
- Working with Credit Bureaus
- Working with Rating Agencies

### **MUDRA BANK FOR MICRO SMALL MEDIUM ENTERPRISES**

The MSME sector has hailed the establishment of Micro Units Development Refinance Agency (MUDRA) Bank with an allocation of Rs.20, 000 crore for micro and small units. It has also granted of Rs.3, 000 crore afresh for sanctioning loan to the MSME sector without collateral security or third party guarantee with a cap of Rs.1 crore. The Credit Guarantee Fund Trust for Micro & Small Enterprises (CGFTMSE) had been granted over Rs.5, 000 crore in the previous budgets. The MSME sector representatives feel that if implemented properly, the initiatives of the NDA Government will help achieve double- digit GDP growth, surpassing China. “The banks are sanctioning, but are restricting the loan amount after a thorough scrutiny, defeating the purpose for which the fund has been created by the Centre, thereby dampening the spirit of MSME entrepreneurs,”.

Micro, Small and Medium Enterprises (MSME) sector employs a large number of people. Nearly 120 million people are employed with 57.5 million entrepreneurs and entities in the MSME sector. Micro Unit Development and Refinance Agency, or MUDRA to fund and promote Micro Finance Institutions (MFIs), which would in turn provide loans to small and vulnerable sections of the businesses which will have an initial corpus of Rs 20,000 crore and a credit guarantee corpus of Rs 3,000 crore. The initial corpus would be provided by banks from their priority sector lending shortfall. Small businesses can avail loan up to Rs 50,000; businesses that are a little bigger could avail loan of up to Rs 5 lakh; the highest bracket of loans available to the MSME sector would be up to Rs 10 lakh. For further financing, the MSME sector affiliated entrepreneurs would be given a 'MUDRA card', which could provide further credit of up to Rs 20,000. MUDRA would also partner with state, regional level co-coordinators to provide finance to the last-mile financiers of small and micro business enterprises. MUDRA Yojana, will provide much-needed financial access to MSMEs, promote growth of small businesses, help boost the country's GDP and create jobs.

The average debt of Small business enterprises in India is around Rs 17,000. If lending is increased to Rs 5 or 10 Lakh, the sector would benefit immensely and may generate lot of self-employment opportunities. Small business units generally face lot of challenges to get loans from Banks. So, they end up taking high-cost loans from financiers or money lenders.

### **IMPACT OF GOVERNMENT ON MUDRA BANK**

The Government of India for the launch of the MUDRA bank with a corpus of Rs.20, 000 crore to extend credit of up to Rs.10 lakh to small businesses and regulate micro-finance institutions, to promote their growth, add to the country's output and create jobs is the step in the right direction to leverage Indian MSME Sector especially in the Semi Urban and Rural India. It would allocate Rs 20,000 crore through Micro Units Development Refinance Agency (MUDRA) Bank for the SME sector and will enhance credit facility to boost the growth of small businesses and manufacturing units, allocation of Rs 1000 crore for support of Start-ups. The Government's 'Make in India' initiative is expanding on the share of manufacturing to India's Gross Domestic Product (GDP) has the potential to transform the fortunes of the Micro, Small and Medium Enterprises (MSMEs) in the country. It also focus on Digital India and Swachh Bharat Abhiyan, the sector will get the needed impetus.

The government has proposed and launched numerous initiatives which focus solely on small scale enterprises. Recognizing the national imperative of financial inclusion, the government introduced the Micro Units Development and Refinance Agency (MUDRA) Bank during the budget announcement of 2015-16. With only 4 percent of micro, small and medium enterprises (MSMEs) falling within the purview of the Indian banking system, the Bank has been launched with the aim of funding the unfunded across the country.

Budget 2015-16 has proposed to create a Micro Units Development Refinance Agency (MUDRA) Bank, with a corpus of Rs. 20,000 crore, and credit guarantee corpus of Rs. 3,000 crore to enhance credit for SMEs. "MUDRA Bank to be set up for small and medium enterprises (SMEs) in lending priority was given to SC/ST enterprises," MUDRA Bank will refinance Micro-Finance Institutions through a Pradhan Mantri Mudra Yojana. In lending, priority will be given to SC/ST enterprises. Rs 1,000 cr also allocated for National skills Mission for more job creations which will also lead young generations to be first generations entrepreneurs. Government is also planning for electronic trade receivable discounting system (TReDS) for MSMEs. It is in the process of electronic trade receivable discounting system (TReDS) financing of

trade receivables of MSMEs from corporate and other buyers through the multiple finances which should increase liquidity in the MSME sector,"

## CONCLUSION

India stands at the threshold of becoming an economic with a huge demographic dividend to capitalize on. The small scale industries which form the foundation of the economic strata need to be strengthened and supported. The numerous initiatives introduced in the past few years are a step in the right direction. Besides schemes being introduced for the overall growth and development of the MSME sector, initiatives have been launched which focus solely on entrepreneurs. The schemes will contribute to the well-being of the individuals engaged in small scale industries which will positively affect the progress of the economy as a whole.

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